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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
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IN THE MATTER OF THE APPLICATION OF MOHAVE ELECTRIC COOPERATIVE, INCORPORATED, AN ELECTRIC COOPERATIVE NONPROFIT MEMBERSHIP CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN.	DOCKET NO. E-01750A-11-0136 **MOHAVE ELECTRIC COOPERATIVE, INCORPORATED'S INITIAL BRIEF**

Mohave Electric Cooperative, Incorporated, by and through its undersigned attorneys, submits its Initial Brief in the above referenced matter, in accordance with the direction of Assistant Chief Administrative Law Judge Nodes direction at the end of the hearing. [1] For ease of reference, a listing of the evidence submitted in this matter follows the Table of Contents.

Arizona Corporation Commission
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[1] Transcript Volume ("Tr Vol"), p. 593.

File: 1234-018-0008-0000; Desc: Closing Brief; Doc#: 127718v1

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I. INTRODUCTION

Mohave Electric Cooperative, Incorporated ("MEC" or "Cooperative") filed its application in this case on March 30, 2011 based upon a 2009 calendar year test year. As discussed herein and in the testimony submitted in this matter, MEC and the Arizona Corporation Commission ("ACC" or "Commission") Staff ("Staff") have, with much time and effort, worked through and are now in full or substantial agreement on most issues presented in this case. The Cooperative appreciates Staff's willingness to cooperatively resolve issues.

As will be discussed herein, the evidence presented in this matter supports the following findings, conclusions and orders based upon a test year ("TY") ending December 31, 2010:

1. **Adjusted Total TY Revenues are $76,068,006;**[2]
2. **Adjusted TY Operating Expenses are $75,523,583;**[3]
3. **Adjusted TY Operating Margin** (before Interest on LT Debt) **is $544,423;**[4]
4. **Adjusted TY OCLD and FV Rate Base are $48,083,871;**[5]
5. **Recommended Revenue Requirement is $79,129,535;**[6]
6. **Recommended Revenue Increase is $ 3,061,529 or 4.02%;**[7]
7. **Reasonable Rate of Return on FVRB is 7.50%;**[8]
8. **The Cost of Service Study ("COSS") submitted by MEC is a traditional fully allocated COSS and MEC's proposed functionalization, classification and allocation techniques fall within the bounds of standard industry practice.**[9]

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[2] Searcy Rejoinder, Mohave Rejoinder Schedule MWS-5; Brown Surrebuttal, Surrebuttal Schedules CSB-1 and CSB-3.

[3] Searcy Rejoinder, Mohave Rejoinder Schedule MWS-5; Brown Surrebuttal, Surrebuttal Schedule CSB-3.

[4] *Id.*

[5] Searcy Supplemental Direct, Supplemental Schedule B-1.0; Brown Surrebuttal, Surrebuttal Schedules CSB-1 and CSB-2; Brown at Transcript, Volume III ("Tr Vol"), p. 449.

[6] Searcy Rejoinder, Mohave Rejoinder Schedule MWS-5; Brown Surrebuttal, Surrebuttal Schedules CSB-1 and CSB-3; Brown at Transcript, Volume III ("Tr Vol"), p. 449.

[7] *Id.*

[8] *Id.*

[9] MEC-4 (Searcy Rejoinder), p. 4; S-8 (Erdwurm Direct), p. 9, Tr Vol III, p. 568 ("Mr. Searcy's cost allocation and rate design is a really well reasoned, good, detailed thoughtful approach . . .").

9. **The Monthly Residential Customer Charge shall be $16.50** and Staff's proposed $13.50 rate is rejected;[10]
10. **The LC&I TOU Rate shall be uniform for all customers** and Staff's proposed lower frozen rate for the 3 existing customers is rejected;[11]
11. **Residential Class Revenues shall increase 4.07%** and Staff's proposed 4.02% cap is rejected;[12]
12. **The Rates set forth on the corrected Mohave Rejoinder Schedule MWS-1 (attachment 1) are approved;**
13. **Prepaid Service is authorized effective with the new rates and charges** and Staff's recommendation that MEC file a separate application for prepaid service is rejected;[13]
14. **MEC's Service Rules and Regulations should be approved, including its revised line extension policy, with the changes recommended by Staff witness Candreas Allen,[14] excepting with regard to deferring approval of prepaid service and excluding transformer costs for individual customers from the line extension policy;[15]**
15. **Service Charges as adjusted by Staff are fair and reasonable;[16]**
16. **MEC shall file a Bill Estimation Tariff as a compliance item in this docket within 90 days of the date of a decision in this case;[17]**
17. **Approve DSM and REST Adjustor Mechanisms for MEC;[18]** and
18. **With regard to the base cost of power and the purchased power prudency review conducted by Staff:[19]**

    a. **Determine that MEC's policies of power supply planning and implementation as being implemented in 2010 are reasonable and appropriate, subject only to further clarification of MEC's criterion on spot market power purchases.**[20] [Compare Mendl 1 and 2][21]

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[10] *See* Section IV.A., *infra*.
[11] *See*, Section IV.B., *infra*.
[12] *See*, Section IV.C., *infra*.
[13] *See*, Section V.A., *infra*.
[14] Allen, Tr Vol III, pp. 468, 481-482 and 489..
[15] *See*, Section V.B., *infra*.
[16] *Id.* at 481.
[17] *Id.* at 479-480.
[18] S-8 (Erdwurm Direct), pp. 14-16.
[19] *See*, Section VI., *infra*.
[20] Mendl, Tr Vol II, pp. 389-392 ("But I think it's in the mode where it [Recommendation No. 2] could be resolved if it's put into writing.").
[21] References are to recommendations set forth in S-7 (Mendl Surrebuttal), pp. 27-28.

b. **Determine that whether MEC's policies of power supply planning and implementation being implemented prior to 2010 were reasonable and appropriate is moot.** [Compare Mendl 3][22]

c. **Reaffirm that for purposes of the purchase power adjustor, purchased power shall include only actual costs of purchased power and associated transmission as clarified in the Commission's decision in this proceeding.** [Compare Mendl 4]

d. **Specify the cost components which may be included in the fuel and purchased power adjustor as limited to RUS Accounts 555, 565, 447, 557 for purchased power and 501, 547 if MEC purchases fuel for generation in the future.** [Compare Mendl 5]

e. **For the period July 25, 2001 through December 31, 2010 (involving approximately $419,063,000 of power purchases),[23] adjust MEC's purchased power bank balance by $91,537 associated with errors and omissions in calculating the purchased power cost and bank balance and to remove $32,702 in purchase power related lobbying expense.** [Compare Mendl 6, 7 and 8]

f. **Determine that the actual eligible purchased power costs were adequately documented from August 2001 through December 2010.** [Compare Mendl 9]

g. **Determine that MEC's actual purchased power costs, as adjusted in item 2 above, plus any adjustment for purchased power consulting, legal and in-house expense ordered by this Commission in this proceeding, if any, are prudent and reasonable for August 2001 through December 2010.** [Compare Mendl 10]

h. **In the event MEC has not filed a rate case prior to September 1, 2016 encompassing the period through December 31, 2015, MEC shall file with the Director of Utilities an informational filing, including a copy of its calendar year 2015 audit report, a summary revenue requirement schedule and an explanation as to why no rate filing was made. MEC shall also file notice of compliance of the foregoing in this docket.** [Compare Mendl 11]

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[22] Mendl Tr Vol II, pp. 393 ("But at this point I see no reason to leave that [Recommendation No. 3] open. As I said earlier, I believe that that's moot at this point.").

[23] S-7 (Mendl Direct), p.28 (for the 2001 - 06 period) and Exhibit JEM-2 Confidential, p. 8 (for the 2007 - 10 period).

i. **MEC acted reasonably on the advice of its outside auditors and consultants in recovering purchased power related consulting, legal and in-house expenses through the PPCA and no adjustment to the PPCA balance is necessary or appropriate.** [Compare Mendl 6 and 7]

j. **On a going forward basis, MEC may continue to recover reasonable purchased power related consulting, legal and in-house expenses through MEC's PPCA.** [Compare Mendl 6 and 7]

k. **As part of MEC's next prudency review, ensure the bank balance reflects the Commission's determination of the treatment of purchased power related consulting, legal and in-house labor with regard to costs incurred during that review period, commencing with January 1, 2011.**[Compare Mendl 12]

l. **Direct Staff and MEC to meet and develop an understanding on the files and records Staff expects MEC to maintain, in addition to copies of its monthly PPCA reports already required to be submitted to Staff, pertinent to MEC's purchased power planning and procurement and to document prudence of the purchased power expenditures.** [Compare Mendl 13 and 14] [24]

m. **Direct MEC to continue treating margins from third-party sales as income.** [Compare Mendl 15 and 16]

n. **Acknowledge that MEC's selection and management of Western Area Power Administration ("Western") to provide critical services are prudent and reasonable.** [Compare Mendl 17]

o. **Direct MEC to continue to work with AEPCO regarding AEPCO's marginal operating costs so that regional power dispatch decisions are based on actual real time costs rather than average costs to fullest extent practicable.** [Compare Mendl 18]

p. **Calculate MEC's base power cost consistent with the determination of the Commission in this case related to the treatment of third party sales and purchase power related consulting, legal and in-house labor costs.** [Compare Mendl 19]

[24] Mendl Tr Vol II, p.383 (Where Mr. Mendl testifies he would not object to Staff and MEC trying to work out the type of documentation that's appropriate for future purchased power prudency reviews and intended that be covered by his recommendations).

II. BACKGROUND

MEC is member owned and operated as a not for profit electric distribution cooperative.[25] Staff concluded that the MEC system is well planned and maintained, was meeting quality in terms of reliability, and that no deficiencies or obvious problems were observed during an inspection of the system performed in July of 2011.[26]

As a cooperative, there is no outside shareholder; it's a closed looped system.[27] The Cooperative's operations are financed by the member/owner/customers and debt financing.[28] Retained earnings (which are really the revenues in excess of costs) are the Cooperative's only source of equity.[29] Those retained earnings are used to finance the distribution system serving the members.[30] Each year MEC takes the total margins earned and assigns it to every one of their member/customers as patronage capital.[31] MEC's Board, depending on its financial condition, returns a portion of the patronage capital back to its member/customers each year.[32] The return of capital credits can be based on one or a combination of methods, such as first-in, first out or current (last-in, first out).[33] In all cases, the Board is looking for a fair way to recognize the contributed equity by the members.[34]

Mohave's service territory is divided into three districts and the customers in each district elect three of the customers that reside in the district to serve on MEC's nine-member board of directors.[35] The directors serve three years with one Board member from each district elected annually.[36]

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[25] MEC-1, Stover Direct, p. 5, ll. 5-6.
[26] Little, Tr Vol 1, p. 112; S-1 (Little Direct), p. 11.
[27] Stover, Tr Vol I, p. 123.
[28] *Id.* at 125-126.
[29] *Id.* at 127.
[30] *Id.*
[31] *Id.* at 126.
[32] *Id.* at 127-128.
[33] *Id* at 129.
[34] *Id.*
[35] Carlson, Tr Vol II, pp. 272 -73.
[36] *Id.* at 273.

The Cooperative's Board deployed C. H. Guernsey, outside consultants familiar with the rates and charges across the country, to evaluate and make recommendations relating to this rate filing in August of 2010. MEC received a first preliminary analysis from Guernsey in October and discussions were held with the Board in October and November. A two-day Board retreat specifically dealing with the rate change, decoupling and REST was conducted in December. Management and Guernsey received Board direction on issues related to the rate case such as the handling and treatment of third-party revenues, sales revenues, customer charges, underperforming rate classes and subsidization. Based upon the direction, Guernsey prepared a package for the January Board meeting where the Board directed Staff and Guernsey to lower the increase. Additional changes were requested by the Board at its February 2011 meeting, and the Board authorized preparing a rate filing consistent with its direction. The filing was reviewed a final time by the Board at its March 2011 meeting.[37] The application was then filed March 30, 2011 based upon a 2009 calendar year test year.

Thereafter, MEC conducted 4 town hall meetings within its service area explaining the application, rate design and prepaid service programs to its customers and is constantly responding to letters, phone calls and personal inquiries during civic and personal functions.[38]

During the 30-day review period, MEC met with Staff and was requested to provide 2010 calendar year data.[39] MEC agreed to suspend the time clock and supplemented the application on May 27, 2011 with supplemental direct testimony of Searcy and schedules with calendar year 2010 data[40] "in order to avoid disputes and facilitate the prompt and efficient processing of its Application."[41]

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[37] Carlson, Tr Vol II, pp. 233-34.
[38] *Id.* at 236.
[39] *Id.* at 323.
[40] MEC-2.
[41] MEC-2 (Searcy, Supplemental Direct) at p.4, lines 18-22.

At no time during these discussions did Staff indicate that it was considering undertaking a purchased power prudency review in connection with the rate filing or that it might involve a 9 ½ year review period [from July 25, 2001 (when the ACC by Decision No. 63868 expressly authorized MEC to become Partial Requirements Member ("PRM") of the Arizona Electric Power Cooperative ("AEPCO")) through December 31, 2010 (a year after the test year MEC used in its application)].[42] Instead Staff in the first week of September 2011 (five months after the application was originally filed) provided a set of data requests asking for a significant amount of data related to MEC's purchased power planning, implementation and invoices, to which MEC timely objected.[43] MEC also requested a short, ten (10) calendar day extension (from September 9, 2011 to September 19, 2011) to provide an initial response encompassing the period January 2007 through December 2009.[44]

Staff's unilateral decision to conduct a purchased power prudency review covering 9½ years under this docket made processing MEC's application for a modest rate adjustment significantly more complex, time consuming and costly for the Cooperative.[45] In the end, the initial request for a $2,980,757 (3.79%) increase in revenues has been adjusted to a joint recommendation for a $3,061,529 (4.02%) increase.

While Staff and MEC have strived to resolve most of the issues presented in this case, a number of issues remain for the Commission to address and resolve. As the positions of the Cooperative in this case reflect the directives of the elected representatives of the Cooperative's customers, after due consideration and deliberation of the various rates and rate

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[42] *Id.*; Decision No. 63868 did not in any way increase MEC's purchased power reporting requirements or indicate MEC's PRM status would subject it to purchased power prudency reviews. Allen, Tr Vol III, pp. 544-545; nor is there any Commission rule, regulation or order that specifically indicates that utilities are subject to prudency reviews or, other than Decision No. 50266, specifying purchased power reporting requirements applicable to MEC. Allen, Tr Vol III, p. 548.

[43] *Id.* at 323-24.

[44] MEC-5 (Stover Rebuttal Testimony) at CNS-Rebuttal Exhibit 4.

[45] MEC-3 (Searcy Rebuttal), p. 7.

design options, it is respectfully requested that the Cooperative be given reasonable deference and is positions given greater weight than would the requests of an investor-owned utility.[46]

III. RATE BASE AND REVENUE REQUIREMENT

MEC and Staff are both recommending the same adjusted 2010 calendar test year rate base ($48,083,871), adjusted test year revenues ($76,068,006), adjusted test year expenses ($75,523,583), adjusted test year return ($544,423) and revenue requirement ($79,129,535), revenue increase (3,061,529 or 4.025%) and return on fair value rate (7.5%).[47] MEC and Staff also recommend the same service charges.[48] See Attachment 2. None of the contested issues discussed below impact the foregoing determinations.

IV. RATE DESIGN

Prior to hearing, MEC and Staff had agreed on the rates for all rate classifications except for the monthly customer charge and large commercial & industrial time of use rate to be charged to three existing LC&I TOU customers, subject to final revenue allocation to residential class and determination of a base cost for purchased power.[49] In doing so MEC and Staff resolved differences relating to: (i) the differential between standard residential customer charges and time of use and net metering rates by agreeing to a $5.00 differential,[50] (ii) time of use peak periods by shortening the TOU peak periods, but maintaining a differential between the standard residential TOU rate and the optional TOU rate including weekends to provide greater incentive to use the optional TOU rate including weekends,[51] (iii) 15 mill per block differential proposed by Staff,[52] (iv) inclusion of an inclining block structure

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[46] Searcy, Tr Vol I, pp. 10-11; Stover, Tr Vol I, pp. 118-122; Carlson, Tr Vol II, pp. 232-234.
[47] Searcy Rejoinder, Mohave Rejoinder Schedule MWS-5; Brown Surrebuttal, Surrebuttal Schedules CSB-1, CSB-2 and CSB-3.
[48] S-2 (Allen Direct), p. 4; *See*, Exhibit 1 to S-2, excluding proposed Customer Information Charge.
[49] MEC-4 (Searcy Rejoinder) Mohave Rejoinder Schedule MWS-7.
[50] S-9 (Erdwurm Surrebuttal), p. 9.
[51] MEC-3 (Searcy Rebuttal) MWS-Rebuttal Schedule 6b; S-9 (Erdwurm Surrebuttal), p. 7.
[52] MEC-4 (Searcy Rejoinder) Mohave Rejoinder Schedule MWS-7.

in the residential TOU rate,[53] (v) LC&I TOU for new customers,[54] and (vi) general rate design, subject to final revenue allocation to residential class and determination of a base cost for purchased power.[55]

Staff reviewed, commented on and relied on the COSS submitted by Mohave, which uses the same methodology used by Staff in designing rates for Trico Electric Cooperative, Sulphur Springs Valley Electric Cooperative and Navopache Electric Cooperative.[56] It is also consistent with Commission Decision No. 71230 that defined customer service costs as including "distribution line expense, a portion of the transformer expense, the meter and service drop expense, and meter reading and customer records expenses."[57] Staff witness Bentley Erdwurm acknowledges that Mohave's COSS presents, "a traditional fully allocated cost of service study ("COSS"), along with Mohave's proposed rate designs."[58] "It is not the position of Staff that Mohave's proposed functionalization, classification, and allocation techniques used in its proposed COSS fall outside the bounds of standard industry practice, and for this reason Staff is recommending revenue increase similar to Mohave's proposal. . . ."[59]

As Mr. Searcy testified: MEC "bases its customer charge in large part on the results of its COSS, it is important to review the findings of that study with regard to customer-related costs and recovery. One basic purpose of any COSS is to determine how costs are incurred. To the extent changes in rates move a cooperative closer to recovering costs in manner similar to how costs are incurred, rates are generally fairer to customers and allow a cooperative to decouple its rates so it will see less negative financial impact from promoting renewables,

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[53] *Id.*
[54] S-9 (Erdwurm Surrebuttal), p. 9.
[55] MEC-4 (Searcy Rejoinder) Mohave Rejoinder Schedule MWS-7.
[56] Searcy, Tr Vol I, p. 19.
[57] Decision No. 71230, p. 7, ll. 18-20.
[58] S-8 (Erdwurm Direct), p. 2.
[59] S-8 (Erdwurm Direct), p. 9 (underline in original).

energy efficiency and conservation, as well as less negative financial impact from other issues that affect energy consumption such as weather and economic down-turns.

Rates are fairer because customers pay for costs they cause to be incurred (rather than one group of customers subsidizing other customers), and rates are more fully decoupled, without the need for complex annual adjustor mechanisms, because fixed customer-related costs of providing service are not recovered through variable energy charges to the same extent."[60]

A. Residential Customer Charge

MEC's Cost of Service Study ("COSS") demonstrates a cost-based rate of $18.56[61] and that completely excludes MEC's wires capacity-related component (an additional $11.44).[62] MEC, however, proposes a lesser residential customer charge of $16.50 compared to Staff's proposed $13.50. Therefore, MEC's proposed customer charge provides every residential customer a $2.00 monthly subsidy when they connect to MEC's distribution system, while Staff would provide a $5.00 subsidy. These subsidies must necessarily be recovered through the energy charge. Minimizing the subsidy not only provides revenue stability,[63] but also makes complex decoupling mechanisms unnecessary.[64]

In his direct testimony, Staff witness Erdwurm contends that MEC's proposal, "with no phase-in period, creates an unacceptable impact."[65] While a customer receiving a minimum bill (i.e., with no energy usage) receives a 73.68% increase, this represents a dollar increase of only $7.00 per month.[66] The adoption of a tiered rate structure, coupled with a nominal overall rate increase under MEC's rate design results in an increase of 0.54% for

[60] MEC-4 (Searcy Rejoinder), p. 6.
[61] MEC-1, Attachment 3, Schedule G-6.0, p. 1.
[62] MEC-1, Attachment 3 (Searcy Direct), p. 25.
[63] S-9 (Erdwurm Surrebuttal), p. 4, ll. 21-24; MEC-2 (Searcy Direct), pp. 24-25; MEC-3 (Searcy Rebuttal), pp. 20-21.
[64] MEC-1, Attachment 3 (Searcy Direct), p. 24; MEC-7 (Carlson Rebuttal), pp. 9-10.
[65] S-8 (Erdwurm Direct), p. 10.
[66] MEC-3 (Searcy Rebuttal) MWS-Rebuttal Schedule 8.

residential customers with monthly kWh usage of 400 kWh and decreases of (0.46%) and (0.69%) for residential customers using 800 kWh and 1,000 kWh, respectively.[67] Those residential customers using 2,000 kWh or more each month will see bills increase from 5.56% to 10.6% on an inclining basis.[68] Average (860 kWh) and median (637kWh) customers will experience 0.54% and 0.19% decreases in monthly bills, respectively.[69] Staff's proposed rates for MEC's residential customers will have similar impacts, with decreases as great as 2.70% for customers using 400 kWh and increases of 13.28% for the 4 MEC customers that use more than 8,000 kWh.[70]

Mr. Searcy explains that customer bills with less than 400 kWh monthly usage "can often be explained by absence from the home (e.g., for vacations or use of second homes), a partial month's billing, or by a rental home being vacant, rather than a consistent level of usage."[71] The evidence of the average energy use by typical appliance presented by Mr. Carlson shows that it is next to impossible for a residence with only a refrigerator, water heater and using a heat pump six hours a day to consume less than 400 kWh in a month.[72]

The record demonstrates that a large percentage of MEC's accounts are involved in disconnects, reconnects and reassignments on a monthly basis and that the number, on a yearly basis, can be up to 40% of MEC's total accounts[73] (e.g., with an average of 39,000 accounts, the yearly total of disconnects, reconnects and reassignments would approximate 15,600). During 2010 MEC generated 47,070 monthly bills with usage of between 0 and 100 kWh, and another 32,244 monthly bills with 100 to 200 kWh usage.[74] In other words, 18.69% of MEC's 2010 billings reflect accounts using 200 kWh or less (79,314 billings vs. 424,251

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[67] *Id.*
[68] *Id.*
[69] *Id.*
[70] S-9 (Erdwurm Surrebuttal), Exhibit DBE-4.
[71] MEC-3 (Searcy Rebuttal), p. 21. *See also,* Erdwurm, Tr Vol III, p. 583.
[72] MEC-8 (Carlson Rejoinder), p. 4 and Mohave Rejoinder Exhibit JTC-1.
[73] Carlson, Tr Vol III, pp. 298-299.
[74] MEC-2, Supplemental Schedule K-1.0.

total billings).[75] As explained above, the evidence demonstrates that it is highly likely that these billings reflect transient accounts and not residences that are occupied the full month. MEC is definitely on the high side for experiencing disconnects, reconnects and reassignments.[76]

At hearing Staff Witness Erdwurm testified:

> "I do think that the customer charge for Mohave should be higher than for one of the larger investor-owned companies.
>
> * * *
>
> . . . I think Mr. Searcy's cost allocation and rate design is a really well reasoned, good, detailed thoughtful approach . . .
>
> * * *
>
> . . . [T]he impact [on the median customer] is, as far as percentages, are reasonably small.
>
> So when we combine, when we do what I call the package deal and we look at the combination of the customer charge and the inclining block rate, the impact . . . [is not] tremendous for the typical average or the median customer. . . .
>
> . . . I don't think their package is really that bad. . . ."[77]

In response to questions from ACALJ Nodes, Mr. Erdwurm further testified:

> ". . . I think they [cooperatives] rightly get a little more latitude in the setting of their rates. . . . They [MEC] costed out - - Mr. Searcy came up with a cost of over, I think over $18.50. He proposed $16.50 because they [MEC] moderated it.
>
> . . . [W]hen I net everything together, you know, I still think that the other issues far outweigh this one as far as importance and what-not. The things that we agreed on were more important than actually the things we disagreed on.
>
> * * *
>
> . . . [T]hey [MEC] are proposing a higher customer charge, but at the same time they've combined it with a very, I guess, conservation

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[75] *Id.*
[76] *Id.* at 299.
[77] Erdwurm, Tr Vol III, pp. 567-69.

oriented inclining block rate, which will counteract the impact of the higher customer charge on the average customer . . .

* * *

So what happens is that a customer that sometimes we're concerned gets negatively impacted with the high customer charge is actually being able to purchase energy at a very favorable inclining block, a very favorable inclining block structure. And what they [MEC] accepted is actually fairly aggressive as far as an inclining block structure compared to some of the inclining blocks that you see around. So I was pleased with that. . . . "

ACALJ Nodes: . . . [S]houldn't we be moving, trying to move as close to cost of service as possible in a case such as this where the impact is relatively minor on the vast majority of customers, all things being equal . . . ?

A. I could definitely make that argument. Like I said, . . . they didn't use their $18.50. They actually tempered it. Quite honestly, I don't think it's that far out of line on a cost basis.

ACALJ Nodes: It's also true, isn't it, in lieu of some kind of decoupling mechanism, putting more into the customer charge essentially accomplishes a comparable goal as far as decoupling, if you add more to the customer charge as opposed to the commodity charge?

A. It does, . . . But we have to watch out that a recommendation like that is not misread and misinterpreted by other utilities. . . .

* * *

For a company that doesn't want to spend a lot on adjustment mechanisms and fancy decouplers and what-not, if a customer [sic] can justify the customer charge - - and I think that they've come very close - - it's not a bad way to decouple.

ACALJ Nodes: And combined with a fairly aggressive inclining block structure that would incentivize customers to use less energy?

A. Right.[78]

Then in answer to MEC's counsel's question as to whether this case presents the optimal time to adjust the customer charge close to the cost of service, Mr. Erdwurm testified: "I agree with that."[79]

Finally, on the issue of whether the customer charge should be phased-in, Mr. Erdwurm testified: "I think if you're convinced that the $16.50 is a fair customer charge, that I would go right to it immediately."[80]

In summary, MEC's proposed customer charge and rate design minimizes the subsidy provided these transient accounts, comes close to collecting the cost of providing service and eliminates the need for a separate decoupling mechanism. Based upon the evidence, summarized above, the Commission should adopt MEC's proposed residential customer charge of $16.50 and there is no need to phase it in (although MEC remains willing to phase in the customer charge starting at $13.50 and moving to $16.50 over the next two years).

B. <u>Large Commercial & Industrial TOU Rate</u>

Staff and MEC agree on what the LC&I TOU Rate should be for new customers. Mr. Erdwurm emphatically agrees that the rate design reflected in Mr. Searcy's rejoinder "is a vast improvement over the existing rate design."[81] Mr. Erdwurm testified: "I think the existing rate allowed some customers to basically get a free ride at the detriment of other customers on the system. This is a much better design for new - - for the new customers, yes."[82] Mr. Erdwurm further agrees that the three existing customers have had the benefit of the "free ride" since they have been on the rate and that Staff's proposal of a lesser frozen rate for the three existing customers "is a compromise" that doesn't get them "all the way to where they

[78] *Id.* at 575-577.
[79] *Id.* at 582.
[80] *Id.* at 590.
[81] *Id.* at 586.
[82] *Id.*

should be."[83] He acknowledges that we are looking at a very small segment, involving about a $6,000 difference in the approach of MEC and Staff and had these three customers been combined with the standard C&I customers "it wouldn't even show up."[84] He further testifies: "But as far as on issues of equity, these three customers have been getting a windfall for a while, and even compared - - this issue was brought up in Mr. Searcy's testimony. They're also saving relative to the regular LC&I nighttime use rate, huge savings. . . . I do personally have a problem with somebody continuing to get the windfall period after period after period . . ."[85]

As to whether the increase should be phased-in, Staff witness Mr. Erdwurm again indicated that "I would almost rather, if the Commissioners or the Judge would prefer to go to the standard rate, that they just do it, you just do it at one time."[86]

Just as is the case with the customer charge, other than evidence of a general concern regarding the percentage increase involved, there is no support for creating a special compromise frozen rate to perpetuate a windfall for the three existing LC&I TOU customers. At a minimum, the windfall should be phased out over the next two years, without the need to wait for another rate proceeding. But Mr. Erdwurm was adamant: "I wouldn't phase in either one of them. I think it almost causes more confusion."[87]

C. Residential Class Revenue Responsibility

Based upon the COSS, the residential class is substantially under earning as a customer class. Where 1.00 represents the relative system wide return, the residential class was providing a relative rate of return of only 0.2 (0.57% return vs. a system wide return of

[83] *Id.* at 586 -587.
[84] *Id.* at 588.
[85] *Id.*at 588-589.
[86] *Id* at 589.
[87] *Id.* at 590

2.846%).[88] In order to address the under performance of the residential class in a modest fashion, MEC proposes that revenues from the residential class increase by 4.16%, slightly above the system wide increase of 4.02%.[89] In contrast, Staff imposed an arbitrary cap on the amount of increase to the residential class equal to system wide increase of 4.02%, "unless compelling cost considerations indicate otherwise."[90] The amount of revenue involved is only $59,772,[91] but as Mr. Searcy explains, Staff's proposal to presumptively cap the revenue generated by 90% of MEC's customer base[92] at the system wide increase: "a) is arbitrary, b) is unsupported by the record [i.e., the COSS], c) is contrary to the Public Utility Policy Act's intent to structure rates that, to the maximum extent practicable, will reflect the costs of service to each customer class, d) ignores the minimal amount of additional revenue Mohave is proposing to shift to the residential class, e) foregoes the opportunity to make such shifts when the overall increase request is minimal, and f) if followed consistently, would forever preclude closing the gap between the residential and other customer classes."[93] It should be summarily rejected as a policy directive. Moreover, even if the Commission were to adopt the presumption suggested by Staff, the low relative return of the residential class in this case constitutes compelling cost considerations sufficient to justify the modest correction being proposed by MEC. The Commission should direct rates be designed based upon the class revenue responsibilities set forth in Mohave Rejoinder Schedule MWS-1, including a 4.16% increase in revenue for the residential class.

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[88] MEC-1, Attachment 3, Schedule G-1.0, p. 1.
[89] Searcy, Tr Vol I, p. 31; MEC-4 (Searcy Rejoinder).
[90] S-8 (Erdwurm Direct), p. 5.
[91] MEC-4 (Searcy Rejoinder), Mohave Rejoinder Schedule MWS-1 (subtracting Staff $ change from MEC $ change for residential class).
[92] Searcy, Tr Vol I, p.30.
[93] MEC-3 (Searcy Rebuttal), p. 17-18.

V. MEC'S RULES AND REGULATIONS

MEC and Staff have agreed to mutually recommend approval of Mohave's entire service rules and regulations package (found in Section P, Attachment 3 to MEC-1), with the changes recommended by Staff witness, Ms. Allen in her direct testimony (S-2) at pages 7-8, with two exceptions: the approval of MEC's pre-paid service program and including transformer costs as part of the customer allowance.[94]

A. <u>Prepaid Service</u>

In response to its customers pleas, MEC, as part of its initial application filed March 30, 2011 (over 13 months ago), proposed amendments to its Service Rules and Regulations to include Subsection 102-I: Prepaid Service.[95] The Subsection provides MEC customers an alternative to demonstrating credit worthiness under Subsection 102-C: Customer Credit and Deposits (which tracks AAC R-14-2-203B Deposits).[96] MEC responded to numerous data requests propounded by Staff regarding its prepaid service proposal[97] and developed a form of Prepaid Metering Agreement.[98] In response to Staff comments, MEC also developed an Optional Prepaid Residential Service tariff (Schedule PRS) and a revised form Prepaid Service Agreement.[99] MEC's prepaid service program is explained by Mr. Carlson at pages 4-7 of his rejoinder testimony and set forth in MEC's Schedule PRS Tariff.[100] To summarize,

- The optional prepaid service is MEC specific and based upon the capabilities of MEC's billing and distribution systems.
- Until AMI metering was recently deployed throughout a significant portion of MEC's service area, prepaid service was not even an option.

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[94] Allen, Tr Vol III, pp. 481-482.
[95] MEC-1, Attachment 3, Section P; MEC-7, JTC- Rebuttal Exhibit 1.
[96] MEC-1, Attachment 3, Searcy Direct, p. 32; Searcy, Tr Vol I, p.38.
[97] MEC-7, JTC-Rebuttal Exhibit 3.
[98] MEC-7, JTC Rebuttal Exhibit 2.
[99] MEC-8, Mohave Rejoinder Exhibits JTC-2 and JTC-3.
[100] MEC-8.

- Any person otherwise eligible to receive standard residential service will be eligible for this optional service, with the exception of time of use customers, net metering customers, customers on MEC's Energy Balance Plan (levelized billing) and critical need customers (i.e., customers who have provided a medical notification in compliance with Subsection 111-A.1.d(1) of MEC's rules).
- Customers must execute a Prepaid Service Agreement and prepay at least $50. Normal establishment fees also apply.
- Once service is established, a positive balance must be maintained to avoid disconnection. Prepayments may be made by phone or the internet 24 hours a day 7 days a week or at MEC offices during normal business hours.
- Customers receive daily text, email and/or phone messages after their balance reach a predetermined level, depending on the season.
- If the account reaches a zero balance, it will be disconnected the next business day. No disconnects will occur on weekends or holidays or after normal business hours.
- If a disconnection occurs, the customer merely needs to pay any balance due, plus establish a positive balance of any amount to reinstitute service. The same payment methods are available.
- No disconnect or reconnect fee is charged. No deposit is required.

Staff testified that it does not oppose prepaid service and "is not out to delay pre-paid service."[101] However, after having MEC's proposal for 11 months, Staff initially failed to make a single substantive comment regarding MEC's proposed prepaid service, suggesting instead that it was "premature" to approve MEC's prepaid program and that MEC should "engage in discussions with stakeholders and other interested parties to further evaluate and

[101] Allen, Tr Vol III, pp. 491-492; 495.

assess its proposal."[102] Yet Ms. Allen testified that MEC had made a good faith effort to address her comments through the proposed Prepaid Service Tariff and that Staff has not identified anything in the tariff that is unacceptable to Staff.[103] With all due respect, MEC believes the Commission has an obligation to evaluate the program MEC has presented and either approve or reject it as part of these proceedings. Moreover, Staff recognizes that MEC held a series of town halls in its service area to the discuss the rate filing, including its proposed prepaid service, and any national, local or other interested party could have attended them and made their interest known.[104]

Despite pending for 13 months, a newspaper article in the Bullhead City newspaper and three days of hearing, the only entity, other than MEC customers expressing support for the program, to express any interest in MEC's prepaid program is AARP.[105] Staff acknowledged that its preference of considering prepaid service in a separate docket, conducting additional stakeholder meetings, and reviewing and/or conducting surveys may not result in a single change to MEC's Prepaid Service Tariff,[106] that it wants to continue to wait to give everybody an opportunity to weigh in[107] and that to do so is tantamount to waiting for the unknown to be resolved.[108]

At hearing Staff affirmed its preference that consideration of MEC's prepaid service program be delayed and considered in another proceeding, but also clarified that its alternative of authorizing the prepaid program with certain conditions would not preclude immediate implementation of prepaid service upon entry of a Decision in this matter.[109]

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[102] S-2 (Allen Direct), p.5. Ms. Allen also testified that Staff is yet to take any action or make a recommendation on Sulphur Springs Valley Electric Cooperative's separate prepaid service application (Dkt No. E-01575A11-0434) that was filed over 5 months ago on December 7, 2011.
[103] Allen, Tr Vol III, p. 500-501.
[104] *Id.* at 498.
[105] *Id.* at 498-499.
[106] *Id.* at 499.
[107] *Id.* at 508.
[108] *Id.* at 509.
[109] *Id.* at 538 -539.

During the hearing Staff indicated that prior to this matter being considered at Open Meeting, MEC should meet with AARP (and other interested persons or entities that request to attend) to discuss their concerns about the tariff and agreement.[110] In response, Mohave extended an invitation to AARP to meet and discuss MEC's program. AARP indicated it was too busy to meet at the suggested time. In response, MEC asked AARP to provide dates during May when AARP could meet with MEC. While this request did result in an exchange of emails, so far AARP has not provided any dates when it is available to meet. Copies of these communications are attached hereto as Attachment 3.

Staff also recommends MEC file in this docket a listing of any ACC rules that would need to be waived or recognized as being affected by MEC's prepaid service tariff so that they could be dealt with in the Recommended Opinion and Order.[111] MEC is compiling the list and will file the list either with or before it files its Reply brief in this matter.

MEC has no objection to providing Staff a copy of proposed advertising and media material at least 30 days before it is published in the media as Staff has requested.[112]

MEC is still developing a piece of promotional material which it will submit to Staff soon.[113] A copy will be docketed no later than with MEC's Reply brief.

MEC has also agreed to add a place for customers to initial all four bullet points on page 1 of the Prepaid Service Agreement.[114] With that addition, Staff is satisfied with the form of Prepaid Service Agreement submitted as Mohave Rejoinder Exhibit JTC-3 to MEC-8. To date, Staff has not suggested any amendments to the form of Tariff submitted as Mohave Rejoinder Exhibit JTC-2.[115] In the event, Staff offers suggestions that results in amendments

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[110] *Id.* at 533.
[111] *Id.*
[112] *Id* at 534.
[113] *Id.*
[114] *Id.* at 535.
[115] *Id* at 536.

to the Tariff, MEC will file a revised Tariff in the docket no later than when Reply briefs are filed.

MEC has no objection to the Commission, as part of its approval of the Prepaid Service Tariff, requiring MEC to: a) file a modified REST tariff that includes a provision stating the REST surcharge will be calculated on a daily basis for prepaid service customers and b) file the annual reports recommended by Staff.[116]

In summary, Staff prefers to wait an indefinite period of time in order to resolve issues it has yet to identify. Such a course of action is not justified. The Commission should accept the alternative course offered by Staff of approving the prepaid program immediately, subject to the recommendations of Staff as clarified at hearing.

B. <u>Recovery of Transformer Costs for New Connections</u>

Staff supports MEC's revisions to its line extension policy, except for MEC's proposal to make individual applicants for line extensions (those outside of subdivisions) responsible for the cost of the pro rata cost of the transformer that will provide them service.[117] MEC has modified its request and agreed to limit an individual customer responsibility to 50% of the cost of the transformer.[118] Staff has rejected that compromise.[119] Staff acknowledges that transformers are sized and installed to meet the load requirements of the customer or customers they are intended to serve[120] and are absolutely necessary to provide service to a customer.[121] Staff supports requiring the customer/developer to pay the cost of transformers within subdivisions,[122] but recommends requiring MEC to fund the cost of transformers serving individuals outside of subdivisions. Staff's only justification for this distinction is that

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[116] *Id.* at 537-538.
[117] *Id.* at 481.
[118] MEC-3 (Searcy Rebuttal), p. 11.
[119] S-3 (Allen Surrebuttal), p. 1.
[120] Allen Tr Vol III, p. 483.
[121] *Id.* at 487.
[122] *Id.* at 482 and 484.

developers can recover the cost of the house or lot.[123] Staff acknowledges that MEC's approach would help to hold down rates and charges in the future and increase patronage capital today.[124]

As explained by Mr. Searcy,[125] Mohave is a rural electric cooperative. It receives requests for new service outside of subdivisions, including quite rural parts of its service territory. The average per-customer transformer plant investment is often greater outside of subdivisions. MEC believes its proposal is fairer to all cooperative members than Staff's recommendation and requests the Commission accept the compromise MEC has offered.

VI. BASE COST OF POWER AND PURCHASED POWER PRUDENCY AUDIT

Two contested issues in this case impact the calculation of MEC's base cost of power: 1) treatment of margins on third party sales and 2) treatment of purchase power related consulting, legal and in-house labor expense. Because the impact of these issues is addressed in the base cost of power, there is no impact on the calculation of MEC's revenue requirement or the total adjusted test year operating revenues, operating expenses, or operating margins (unless a PPCA bank balance write-off is ordered). If these two issues are resolved as proposed by MEC the base cost of power per kWh sold is $0.089283. If Staff's proposed treatment of these two issues is adopted the base cost of power per kWh is $0.087701. If a middle ground is adopted on the treatment of margins on third party sales splitting the margins between the income statement and the purchase power adjustment clause, the base cost of power per kWh would need to be recalculated.

The issues associated with the calculation of the base cost were raised by Staff witness, Jerry Mendl, the President of MSB Energy Associates, Inc. Mr. Mendl was retained by Staff, as part of this rate proceeding, to:

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[123] *Id.* at 485.
[124] *Id.* at 487-488.
[125] MEC-3 (Searcy Rebuttal), p. 10 -11.

1. Evaluate MEC's procurement process since July 25, 2001;

2. Identify any deficiencies in MEC's power procurement process and make recommendations to correct those deficiencies;

3. Determine the prudence of purchases made by MEC since July 25, 2001;

4. Make recommendations regarding the prudence of costs allowed for recovery;

5. Make any necessary recommendations to improve MEC's PPCA; and

6. Determine the base cost of power.

While the audit process was complex and not without dispute, Mr. Mendl completed all tasks assigned to him encompassing the period July 25, 2001 through December 31, 2010. MEC supports the recommendations set forth in the Introduction Section, *supra*, based on those contained in Mr. Mendl's surrebuttal,[126] but restated to reflect the evidence and to reserve disputed issues discussed below.

A. <u>Margins on Third Party Sales</u>

From time to time since becoming a PRM in 2001, MEC has sold power to third parties in an effort to take advantage of market opportunities during periods when MEC has power under contract in excess of its immediate demand.[127] Staff and MEC differ on how third party sales ("TPS") should be handled, with MEC advocating continuation of existing practice of isolating TPS from MEC's purchased power adjustment clause ("PPCA") and bank balance and flowing TPS margins through the income statement,[128] while Staff advocates altering how TPS are handled and flowing all TPS purchased power costs and revenues through the PPCA and bank balance.[129]

MEC has always removed TPS related purchased power costs from the costs recovered under the PPCA and treated TPS margins as income, thereby improving MEC's overall

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[126] S-7, Executive Summary and pp. 27-28.
[127] Stover Tr Vol I, p.159.
[128] *Id.* at 160; MEC-5 (Stover Rebuttal), p. 23.
[129] *Id.*

margins, its debt service coverage ("DSC") and its times interest earned ratio ("TIER"). MEC's approach insulates the PPCA bank balance from TPS activity[130] and, instead treats TPS like any other business decision made by MEC's Board. Only power costs associated with serving MEC member load has flowed through the PPCA.[131] This approach was based upon a similar approach MEC had previously taken with the power costs and revenues associated with sales to one of its large industrial customers.[132] This approach was also expressly discussed with Staff in January 2004.[133]

The benefits flowing from MEC's approach are:

1. Increase the margins resulting in higher coverage ratios
2. Flows to equity and increases the equity ratio for the Cooperative
3. Flows to the member's patronage capital account (discussed in the Background section, supra) which increases the equity each member has in the Cooperative.[134]

Mohave's Board of Directors expressly considered whether to alter the treatment of power costs and margins related to third party sales when preparing the present application and directed management to maintain the current treatment.[135]

Staff witness, Mr. Mendl agrees that the foregoing are potential benefits associated with MEC's current approach of handling margins from TPS and that either MEC's or his approach "could be done in a way that would be reasonable or would be appropriate from a perspective of collections and handling and accounting for the money. But they have different characteristics in terms of how they impact ratepayers and the company."[136] "Staff

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[130] *Id.*
[131] *Id* at 161.
[132] *Id.*
[133] *Id.*; MEC-5 (Stover Rebuttal), p. 23.
[134] MEC-5 (Stover Rebuttal), p. 24; Stover Tr Vol I, pp. 161-163, 166-167.
[135] Carlson, Tr Vol II, pp. 265-266.
[136] Mendl, Tr Vol II, p. 342.

believes it is preferable to flow the margins on third party sales to offset purchase power costs to reduce the PPCA rate and/or reduce the purchase power bank balance."[137] Mr. Mendl's criticism of MEC's approach is that it constitutes an involuntary investment in the Cooperative, rather than using them to offset ratepayer costs.[138] Yet, as discussed in the Background section, *supra* and testified to by Mr. Stover,[139] utilization of margins for these purposes goes to the very essence of the cooperative model – member/consumers investing in the business through reinvesting the margins their purchases provide. In the case of TPS, margins are actually provided by a third party rather than the members. If anything, the fact that the margins are derived from TPS rather than directly from members only serves to strengthen the argument that they should be used for the general benefit of the Cooperative as a whole rather than flow through the PPCA to reduce power costs to existing customers.[140]

MEC's Board, as the elected representatives of the customers served by MEC, believes it is in the best interest of the Cooperative and its members to continue to use TPS margins to increase the Cooperative's margins and improve DSC and TIER, just as all other margins are used. Such treatment of TPS margins is consistent with the cooperative model and will facilitate the financial health of the Cooperative. In fact, the [141]current treatment of TPS margins was "one of the reasons Mohave was able to defer [a] rate filing, because we had a number of years where we had some very good third-party sales, very good margins, and all those margins flowed to the bottom line." The Board respectfully requests the Administrative Law Judge and the Commission give reasonable deference and weight to the MEC Board in this matter of policy as how best to make use of margins that would not exist except for the

[137] S-7, (Mendl Surrebuttal) p.19.
[138] S-7 (Mendl Surrebuttal), p. 19.
[139] Stover, Tr Vol I, pp. 123-128.
[140] As Mr. Mendl has only worked on two distribution electric cooperatives (Tr Vol. II pp. 385 and 419), it is not too surprising that he was uncertain whether utilization of margins to invest in the system was consistent with the cooperative philosophy. *Id* at 421-422.
[141] Stover, Tr Vol I, p. 160.

Board's efforts in first becoming a PRM and then maximizing the benefits therefrom by entering into TPS in the first instance.

Alternatively, MEC suggests margins be split, with 50% going through the PPCA and 50% being treated as income. Staff recognizes that TPS margins could be handled in this manner.[142] Stover indicated that in the FERC and state commission proceedings in which he has been involved TPS margins have either flowed to the shareholders or have been split between the shareholders and the customers.[143] When faced with how to treat revenues obtained from non-traditional sources, such as settlements, the Commission has on more than one occasion divided the benefits between shareholders and ratepayers on a 50/50 basis. See, Decision Nos. 72258, dated April 7, 2011, 66849, dated March 19, 2004 and 58497, dated January 14, 1994 (all involving a 50/50 split of settlement proceeds between shareholders and ratepayers as a reasonable balance between the rights and obligations of shareholders and ratepayers and still incenting the utility to pursue litigation or settlement.). Of course, MEC's ratepayers and owners are one and the same. However, the record reflects the way TPS margins are treated does impact the timing as to when the ratepayer receives benefits.[144] Therefore, on a going forward basis, MEC deems splitting the manner TPS margins are treated 50/50 between the two approaches as a viable alternative, while not the MEC Board's preferred approach.

B. Purchased Power Related Consulting, Legal and In-House Labor Expenses

Following conversion to a PRM in 2001, MEC started incurring purchased power related costs not previously incurred.[145] These expenses were not in existence when MEC last received an adjustment in rates by Decision No. 57172, dated November 29, 1990 based upon

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[142] Mendl Tr Vol II, p. 423.
[143] Stover, Tr Vol II, p. 166.
[144] *Id.* at 422.
[145] Mendl, Tr Vol II, p. 399.

a test year ending July 31, 1989.[146] Commencing in 2008, at the direction of its previous CEO, MEC started tracking the purchased power activities that MEC staff was involved in, such as interfacing with Western, Guernsey, Southwest Transco and AEPCO, going through the analysis of making recommendations to the CEO about purchases for the summer or any other purchases or anything else that may involve purchase power supply.[147]

In 2009 MEC hired a person that worked in Western's offices to be trained and that training is still in progress.[148] During the same period, the prior CEO directed securing an analysis from MEC's engineers and its auditors of whether these purchased power-related costs should be booked and recovered as power supply expenses.[149]

Having segregated and documented these purchased power-related expenses and been advised by its engineers and auditors as to how to classify them, MEC started recovering these expenses through the MEC PPCA in 2010.[150] The idea was to capture power supply costs and, over time, reduce reliance on outside services.[151] The way MEC "looked at it is, these costs, which previously would have been costs that would reside in our AEPCO bill because .... AEPCO was involved in power supply planning and making, you know -- all the kinds of things that we are now involved in. . . and Mohave is having to do it directly. And so we felt they were appropriate to purchased power cost related expenses."[152]

In 2010, MEC booked $562,035 in purchased power related consulting, legal and in-house staff expense to Account 557 (Other Expenses) and included them in the monthly PPCA Reports submitted to Staff for collection under the MEC PPCA.[153] These expenses were, therefore, included in 2010 calendar year Operating Expense as part of MEC's

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[146] MEC-1, Application ¶ 5.
[147] Carlson, Tr Vol II, p. 267.
[148] *Id.* at 267-268.
[149] *Id.* at 268.
[150] Stover Tr Vol I, 152 -153
[151] *Id.*
[152] Stover, Tr Vol I, p. 149.
[153] MEC-6 (Stover Rejoinder), p. 7.

$61,802,677 Purchased Power Expense.[154] Staff has allowed the expenses, but re-categorized them as Administrative and General.[155] Thus there is no issue as to whether the $562,035 expenses are recoverable test year expenses. Both MEC and Staff agree that they are recoverable.

The issue is whether these expenditures are of a type the Commission believes a non-profit electric distribution cooperative that the Commission authorized to convert to a PRM can collect through its PPCA. The immediate impact of this determination will be reflected in the Base Cost of Power, not in the rates themselves. Going forward, it will impact MEC's ability to pass through increases or decreases[156] in these expenses through the PPCA. Finally, there is an issue as to whether the PPCA bank balance should be adjusted to remove the 2010 expenses.[157] Such an adjustment not only impacts MEC's PPCA bank balance, but would preclude MEC from ever recovering these 2010 expenses from its members and would result in an additional $562,035 expense on MEC's 2012 income statement, lowering its margins, DSC and TIER at a time when MEC is already in technical default on its RUS and CFC loans.[158]

Staff has not questioned that these expenses were properly booked in Account 557 which provides:

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[154] S-5 (Brown Surrebuttal), Schedule CSB-3 and CSB-6.
[155] *Id.*
[156] The $562,035 will be reflected in the base power cost (either by inclusion of exclusion), so it is only MEC's ability to reflect increases or decreases in the expense level that is impacted.
[157] Staff recommends that any bank balance adjustment for 2011 and 2012 purchase power related consulting, legal and in-house labor expense await a prudency audit covering those years. S-7 (Mendl Surrebuttal, p. 28, Recommendation 12.)
[158] MEC-5(Stover Rebuttal), CNS-Rebuttal Exhibit 10 showing the projected impact on the 2010 test year Income statement of the proposed rate increase coupled with the bank balance adjustments Staff had proposed in direct. The Staff has totally abandoned both its 1.94 prudence adjustment and its post 2010 bank balance adjustments.

> 557 Other Expenses
>
> A. This account shall be charged with any production expenses including expenses incurred directly in connection with the purchase of electricity, which are not specifically provided for in other production expense accounts. Charges to this account shall be supported so that a description of each type of charge will be readily available.
>
> B. Recoveries from insurance companies, under use and occupancy provisions of policies, of amounts in reimbursement of excessive or added productions costs for which the insurance company is liable under the terms of the policy shall be credited to this account.

Staff bases its entire argument on the fact that Staff did not support inclusion of the account in the adjustor mechanisms of either AEPCO (Decision No. 68701) or Sulphur Springs Valley Electric Cooperative (Decision No. 71274), and that the adjustors approved by the Commission were consistent with Staff recommendations. However, a review of the pre-filed testimony in both cases evidences that both cooperatives did not contest Staff's recommendation. In fact, Decision No. 68071, at p. 10 Finding of Fact 36 expressly states the adjustor is approved "on terms agreed to by the parties." Similarly, SSVEC never contested the recommendations Ms. Julie McNeeley-Kirwin relating to her proposal as to the accounts to be included. See, Attachment 4 (page 4 of the pre-filed rebuttal testimony of David Hedrick). Thus, in neither case did the Hearing Division nor the Commission resolve a dispute regarding whether expenses booked in Account 557 can be included in a PPCA. This case clearly presents that issue.

MEC recognizes that "[t]he fundamental rationale for a fuel adjustment clause is that fuel prices can change." Decision No. 63868, p. 9, FoF 45. However, it acted reasonably spending more than a year developing a documentation system for these purchased power related consulting, legal and in-house labor expenses and inquiring of its outside auditors and engineers as to how to book them and recover them. While the costs involved reflect less than 1% of MEC's test year power costs ($562, 035 vs. $61,802,677),[159] they exceed MEC's $544,423 of operating margin (before interest on L.T. debt) for the adjusted 2010 test year.[160]

Mr. Stover testifies that the purchased power costs involved satisfy the criteria of being volatile and unpredictable.[161] For example, the level of costs is driven by:

> 1. When AEPCO and SWTCO have a rate proceeding before the ACC. The timing for the AEPCO rate cases, the complexity of the cases, and the level of effort required are not readily defined.
> 2. AEPCO may have a special filing with the ACC such as the recent fixed fuel adjustor filing.
> 3. Mohave must deal with potential legislative actions that can adversely impact the hydro allocation.
> 4. Market conditions will require differing levels of effort to track costs and take advantage of market purchases.
> 5. Mohave will evaluate power supply alternatives when they come up.
>
> The point is that the volatility that Mr. Mendl references is a fact of life for Mohave, as staff and consultants manage power supply issues.
>
> With regard to management control, while Mohave's management and Board have some control over the level of staff costs and outside costs associated with dealing with power supply issues, the level of involvement is driven by the significant portion of Mohave's total cost of service represented by power supply costs. While Mohave could decide not to participate in a particular filing, hearing, litigation, power supply plan, etc., its failure to actively represent its members' interest in maintaining a reliable and low cost wholesale power supply would not be seen as prudent by the Commission. Therefore, the level of activity is to a large extent driven by external factors over which Mohave has no direct control. Since these costs are also directly related to securing, scheduling, and documenting

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[159] S-5 (Brown Surrebuttal), Surrebuttal Schedule CSB-2.
[160] *Id.*
[161] MEC-5 (Stover Rebuttal), pp. 16-19; MEC-6 (Stover Rejoinder); Stover TR Vol I, pp. 144-146.

and reporting purchased power, it is appropriate to record them as purchased power costs and recover them under the PPCA.[162]

Mr. Stover also noted that Golden Spread Electric Cooperative has been authorized by FERC to recover their costs for purchased power related outside services.[163]

In the event the Commission were to rule that these costs should no longer be collected through MEC's PPCA, MEC asks that the decision be made prospective only (after the Decision is effective) and that MEC not be required to adjust its PPCA bank balance to remove the 2010 expenses (or subsequently the 2011 and 2012 expenses). MEC's actions from 2008 through 2012 were reasonable. MEC's actions did not violate any Commission rule, regulation or order. As noted, the Decisions cited by Staff were based upon uncontested Staff recommendations and did not directly or indirectly purport to define the PPCA of any other utility. Such adjustments not only impact the PPCA bank balance, but have a negative impact on MEC's income statement at a time when MEC's DSC and TIER already are below the levels required by RUS and CFC.

VII. MEC'S NEXT RATE FILING

Staff recommends the Commission mandate MEC file a full rate case no later than September 1, 2016 "to ensure the purchased power cost data and supporting information remain fresh."[164] MEC objects to being ordered to undertake the time consuming and costly full rate filing on a date certain, regardless of need. This business decision should not be summarily taken from the MEC Board - - the elected representatives of MEC's customers.[165] MEC does not object to the Commission ordering that, in the event MEC has not made a rate filing prior to September 1, 2016, it shall submit an informational filing with the Director of

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[162] MEC-5 (Stover Rebuttal), p. 18.
[163] Stover TR Vol I, p. 151.
[164] S-7 (Mendl Surrebuttal), p. 28, Recommendation 11.
[165] MEC-7 (Carlson Rebuttal), p. 14.

Utilities on that date.[166] In rejecting a Staff recommendation that AEPCO and Southwest Transco be ordered to file a rate case by a date certain, the Commission in Decision No. 63868, dated July 25, 2001 (and relied on by Mr. Mendl for a different purpose) and based upon objections similar to those of MEC that the Cooperative's comments, opted for requiring only an informational filing. MEC proposes the informational filing consist of its calendar year 2015 audit report, a Summary Schedule similar in format that set forth in Schedule CSB-1 and a narrative explanation of why a rate filing is not necessary or, if necessary, has been delayed.

Also, in Decision No. 71274, dated September 8, 2009 involving SSVEC, the Commission declined to "decide now whether a fuel procurement prudency review should be required in three years or in the next rate case. We believe it is better to allow Staff to determine in the next rate case, based on intervening facts, how best to investigate SSVEC's fuel procurement policies and practices. This may result in a full prudency review, or it may involve a lesser investigation."[167] MEC agrees that alternatives to a full prudency review may be appropriate and should be actively reviewed by Staff and MEC when they meet to discuss the type of documentation MEC should maintain relating to its purchased power purchases and practices.[168]

VIII. CONCLUSION

Through a cooperative effort, MEC and Staff are able to provide joint recommendations on many of the issues the Commission must decide in this case. Even on the few remaining issues, Staff has generally recognized that MEC's position has merit. In no instance did Staff indicate that granting MEC's request would be unfair, inequitable or unjust. For the reasons stated on the record and in this brief, MEC asserts that its position is

[166] MEC-4 (Searcy Rejoinder), p. 20.
[167] Decision No. 71724, p. 34.
[168] Allen Tr Vol III, p. 469.

supported by the weight of the evidence. In the event there are any close calls, then MEC respectfully requests the Commission grant the recommendations and desires of the elected representatives of the customers MEC serves due deference and grant MEC's remaining request.

While all of the remaining issues are important, of particular importance are: 1) setting the residential customer charge at a level close to cost to avoid unintended and inappropriate subsidization within the class; 2) deploying prepaid service; and 3) avoiding the infliction of additional financial difficulties on MEC by requiring adjustments to a PPCA bank balance for actions MEC took in a good faith effort to recover purchased power related expenses.

RESPECTFULLY SUBMITTED this 11 day of May, 2012.

CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.

By: ______________________

Michael A. Curtis
William P. Sullivan
Melissa A. Parham
501 East Thomas Road
Phoenix, Arizona 85012-3205
Attorneys for Mohave Electric Cooperative, Incorporated

PROOF OF AND CERTIFICATE OF MAILING

I hereby certify that on this 11th day of May, 2012, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and thirteen (13) copies of the above to:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing emailed
this 11th day of May, 2012 to:

Dwight Nodes, Administrative Law Judge
dperson@azcc.gov
dbroyles@azcc.gov

Bridget Humphrey, Esq.
bhumphrey@azcc.gov

Steven M. Olea
Director, Utilities Division
solea@azcc.gov

Mary Walker

ATTACHMENT 1

MOHAVE ELECTRIC COOPERATIVE, INC.

SUMMARY OF RATES

	Existing Rate	Staff Surrebuttal	Mohave Rejoinder
Power Cost, per kWh Sold	$0.089483	$0.087701	$0.089283
PPCA Base Cost, per kWh Sold	$0.065798	$0.087701	$0.089283
PPCA Factor, per kWh	$0.023685	$0.000000	$0.000000
Residential Service			
Service Charge, per month	$9.50	$13.50	$16.50
First 400 kWh per month	$0.083190	$0.093351	$0.090076
Next 600 kWh per month	$0.083190	$0.108351	$0.105076
Over 1,000 kWh per month	$0.083190	$0.123351	$0.120076
Optional Res Time of Use - Excludes Weekends			
Service Charge, per month	$15.00	$18.50	$21.50
On-Peak Energy Charge, per kWh			
First 400 kWh per month	$0.149500		$0.204046
Next 600 kWh per month	$0.149500		$0.219046
Over 1,000 kWh per month	$0.149500		$0.234046
Off-Peak Energy Charge, per kWh			
First 400 kWh per month	$0.052000		$0.057136
Next 600 kWh per month	$0.052000		$0.072136
Over 1,000 kWh per month	$0.052000		$0.087136
Optional Res Time of Use - Includes Weekends			
Discount on all energy charges excluding PPCA		2.25%	2.25%
Experimental Residential Demand Service			
Service Charge, per month	$13.50	$18.50	$21.50
Demand Charge, per NCP kW	$7.50		$8.50
First 400 kWh per month	$0.048000		$0.060954
Next 600 kWh per month	$0.048000		$0.075954
Over 1,000 kWh per month	$0.048000		$0.090954

MOHAVE ELECTRIC COOPERATIVE, INC.

SUMMARY OF RATES

	Existing Rate	Staff Surrebuttal	Mohave Rejoinder
Power Cost, per kWh Sold	$0.089483	$0.087701	$0.089283
PPCA Base Cost, per kWh Sold	$0.065798	$0.087701	$0.089283
PPCA Factor, per kWh	$0.023685	$0.000000	$0.000000
Irrigation			
Service Charge, per month	$60.00	$61.76	$61.76
Demand Charge, per NCP kW	$7.00	$7.42	$7.52
Energy Charge, per kWh	$0.058000	$0.082043	$0.082254
Irrigation Time of Use			
Service Charge, per month	$60.00	$66.91	$66.91
On Peak Demand Charge, per on peak kW	$13.50	$8.63	$8.90
Demand Charge, per NCP kW	$0.00	$1.68	$1.62
Energy Charge, per kWh	$0.050000	$0.071792	$0.072151
Small Commercial - Energy			
Service Charge, per month	$12.00	$18.50	$21.50
Energy Charge, per kWh	$0.081600	$0.107048	$0.103346
Small Commercial - Demand			
Service Charge, per month	$25.00	$36.03	$36.03
Billing Demand Charge, per NCP kW > 3 kW	$8.25	$10.82	$11.00
All kWh per month	$0.053740	$0.073351	$0.073038
Small Commercial - Time of Use			
Service Charge, per month	$30.00	$41.01	$41.03
On Peak Demand Charge, per on peak kW	$12.50	$14.45	$15.00
Demand Charge, per NCP kW		$4.69	$4.69
All kWh per month	$0.050400	$0.060989	$0.059769

MOHAVE ELECTRIC COOPERATIVE, INC.

SUMMARY OF RATES

	Existing Rate	Staff Surrebuttal	Mohave Rejoinder
Power Cost, per kWh Sold	$0.089483	$0.087701	$0.089283
PPCA Base Cost, per kWh Sold	$0.065798	$0.087701	$0.089283
PPCA Factor, per kWh	$0.023685	$0.000000	$0.000000
Large Commercial & Industrial			
Customer Charge, per month	$70.00	$175.00	$175.00
Demand Charge, per NCP kW	$9.75	$11.03	$10.98
Energy Charge, per kWh	$0.045580	$0.070052	$0.069893
Large Commercial & Ind Time of Use - Existing Customers			
Customer Charge, per month	$70.00	$189.00	$180.00
On Peak Demand Charge, per on peak kW	$13.50	$11.11	$23.00
Demand Charge, per NCP kW		$3.22	$3.22
Energy Charge, per kWh	$0.041000	$0.051775	$0.050970
Large Commercial & Ind Time of Use- New Customers			
Customer Charge, per month	$70.00	$189.00	$180.00
On Peak Demand Charge, per on peak kW	$13.50	$23.00	$23.00
Demand Charge, per NCP kW		$3.22	$3.22
Energy Charge, per kWh	$0.041000	$0.051755	$0.050970
Discount on Dem & Ener - Subtransmission Service	0.00%	-7.50%	-7.50%
Discount on Dem & Ener - Substation Service	0.00%	-5.00%	-5.00%
Discount on Dem & Ener - Dist Primary Service	0.00%	-1.00%	-1.00%

MOHAVE ELECTRIC COOPERATIVE, INC.

SUMMARY OF RATES

			Existing Rate	Staff Surrebuttal	Mohave Rejoinder
Power Cost, per kWh Sold			$0.089483	$0.087701	$0.089283
PPCA Base Cost, per kWh Sold			$0.065798	$0.087701	$0.089283
PPCA Factor, per kWh			$0.023685	$0.000000	$0.000000
Lighting					
175 W MVL	100	kWh per month	$6.85	$7.11	$7.17
100 W HPS	50	kWh per month	$7.88	$8.46	$8.48
175 W MVL CO	100	kWh per month	$5.11	$6.58	$6.64
100 W HPS CO	50	kWh per month	$5.11	$5.41	$5.43
250 W HPS	129	kWh per month	$13.18	$13.95	$14.03
			No PCA	*PCA*	*PCA*

ATTACHMENT 2

The Law Offices of
CURTIS, GOODWIN, SULLIVAN, UDALL & SCHWAB, P.L.C.
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Of Counsel
Joseph F. Abate

REFER TO FILE NO. 1234-18-8

April 13, 2012

Mr. David Mitchell
State Director
AARP Arizona
16165 N. 83rd Ave, Ste. 201
Peoria, Arizona 85382

Re: Mohave Electric Cooperative, Incorporated Prepaid Service Program

Dear Mr. Mitchell:

Our offices represent Mohave Electric Cooperative, Incorporated ("Mohave"). We have been provided a copy of your March 21, 2012 letter filed in the Mohave Rate docket at the Arizona Corporation Commission. On behalf of Mohave, we invite you to meet with Mohave representatives at the Mohave business office in Bullhead City on April 27, 2012 at 1:00 p.m. to discuss Mohave's prepaid service program.

As brief background, Mohave proposed numerous amendments of its Service Rules and Regulations as part of its rate application filed over a year ago. In response to the demands of its member/customers, Mohave also included an optional prepaid service program as an alternative to demonstrating creditworthiness or providing a deposit. The prepaid program is supported by Mohave's customers and the customer-elected nine member Mohave Board of Directors (all of whom qualify for AARP membership) as a way of making electric service accessible to those persons for whom making a deposit and paying past due bills is an significant economic hardship.

In response to comments from Commission Staff, Mohave has modified its program and developed the enclosed form of tariff and prepaid service agreement. Prepaid service is entirely optional for standard residential customers. The option is not available to any non-residential customers, or residential customers with time-of-use, net metering or three-phase service or on Mohave's balanced budget program. Additionally, critical accounts (those requiring electricity for medical reasons) are ineligible for the program. Once initiated, prepaid customers may switch to the standard (or any other appropriate) rate at any time, subject to meeting the normal eligibility criteria (including demonstrating creditworthiness or posting deposits). Importantly, maintaining a prepaid account in good status for 12 consecutive months demonstrates creditworthiness and eliminates the need for a deposit.

Mohave is open to considering concerns, suggestions and solutions that AARP may have that will serve to enhance the program. However, Mohave and its customers oppose further delays in the implementation of an optional prepaid service program.

Please call me for Mohave's address and directions or if you are unavailable on the date and time suggested above. Mohave looks forward to meeting with you in Bullhead City to discuss Mohave's prepaid service program.

Very truly yours,

William P. Sullivan
maw

William P. Sullivan
For the Firm

WPS/maw

Enclosures: Form of Tariff
Prepaid Service Agreement

cc: Mr. Tyler Carlson, CEO, Mohave Electric Cooperative, Incorporated (without Enclosures)
Stephen M. Jennings, Associate State Director AARP (with Enclosures)

From: William Sullivan [mailto:wsullivan@cgsuslaw.com]
Sent: Friday, April 20, 2012 2:52 PM
To: Mitchell, David; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Dear Messrs. Mitchell and Jennings,

Last Friday we transmitted a letter via the email below (and U.S. mail) extending Mohave Electric Cooperative's invitation to meet with you at its offices next Friday (April 27, 2012) in Bullhead City to discuss its prepaid service program. I am unaware of any response from you regarding your ability or desire to meet to discuss the topic. Please provide a response by 4 p.m. on Monday. Your attention to this matter is appreciated.

Regards,

Bill Sullivan
Curtis, Goodwin, Sullivan,
Udall & Schwab, PLC
501 East Thomas Road
Phoenix, Arizona 85012-3205
Phone: (602) 393-1700
Facsimile: (602) 393-1703
E-mail: wsullivan@cgsuslaw.com
Website: www.cgsuslaw.com

From: Mary Walker
Sent: Friday, April 13, 2012 3:10 PM
To: dmitchell@aarp.org
Cc: sjennings@aarp.org; William Sullivan; 1234_018_0008_0000 2010 Rate Case E_Mail Messages <{F10938}.iManage@server02.cgsuslaw.local>
Subject: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Dear Mr. Mitchell,

Attached is a letter on behalf of Mohave Electric Cooperative that is being mailed to you today. Please contact Mr. Sullivan if you have any questions.

Thank you,

Mary Walker
Assistant to William P. Sullivan, Esq. and Larry K. Udall, Esq.
Curtis, Goodwin, Sullivan, Udall & Schwab, P.L.C.
501 East Thomas Road
Phoenix, Arizona 85012
(602) 393-1700

William Sullivan

From: William Sullivan <wsullivan@cgsuslaw.com>
Sent: Friday, April 20, 2012 3:10 PM
To: 'Mitchell, David'; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Mr. Mitchell,

What dates during the month of May might you have time to meet with Mohave in Bullhead City?

Regards,

Bill Sullivan
Curtis, Goodwin, Sullivan,
Udall & Schwab, PLC
501 East Thomas Road
Phoenix, Arizona 85012-3205
Phone: (602) 393-1700
Facsimile: (602) 393-1703
E-mail: wsullivan@cgsuslaw.com
Website: www.cgsuslaw.com

From: Mitchell, David [mailto:DMitchell@aarp.org]
Sent: Friday, April 20, 2012 3:03 PM
To: William Sullivan; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

I'm sorry but schedules do not permit us to meet at this time.

David M Mitchell
AARP Arizona State Director
(602) 262-5191

Click on the icons below to connect with AARP Arizona!

Follow AARP Arizona

From: William Sullivan [mailto:wsullivan@cgsuslaw.com]
Sent: Friday, April 20, 2012 2:52 PM
To: Mitchell, David; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Dear Messrs. Mitchell and Jennings,

From: Mitchell, David [mailto:DMitchell@aarp.org]
Sent: Monday, April 23, 2012 11:05 AM
To: William Sullivan; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Mr. Sullivan:

Thank you for your proposal to have AARP meet with representatives of Mohave Electric in Bullhead City. We appreciate the electric co-op's willingness to meet and your desire to set a time and date for that meeting.

Even with Arizona's extreme climate and the absolute necessity of electric power to many of our elder's very survival, AARP expects virtually all electric utilities to seek the ease and convenience of remote shut-offs under "voluntary" pre-pay programs.

Arizona Corporation Commission action on the utility's proposal could influence subsequent applications across our state and it is therefore of importance beyond just the impacts on Mohave ratepayers.

AARP is still determining what other issues we may have with Mohave's application. Once this is complete we will be ready to respond to you about a possible meeting including a time and place, whether here in the Phoenix area or Bullhead City.

Please be assured that we are at work on this and should have our Association's determination made in the near future. At that time we will be ready to properly respond. Thank you for your patience.

Sincerely,

David M. Mitchell

David M Mitchell
AARP Arizona State Director
(602) 262-5191

Click on the icons below to connect with AARP Arizona!

<u>**Follow AARP Arizona**</u>

AZ

William Sullivan

From: William Sullivan <wsullivan@cgsuslaw.com>
Sent: Tuesday, April 24, 2012 5:07 PM
To: 'Mitchell, David'; Jennings, Steve
Cc: Michael Curtis; Mary Walker
Subject: RE: Mohave Electric Cooperative, Incorporated Prepaid Service Program [IWOV-iManage.FID10938]

Dear Mr. Mitchell,

Mohave looks forward to receiving and discussing AARP's ideas on how its proposed prepaid service program can be improved. Please understand that Mohave did not design and is not proposing a statewide prepaid service program; nor is Mohave advocating its proposed program for use by any other electric utility. Rather Mohave's prepaid program is designed exclusively for use by Mohave to serve the customers in Mohave's service area in response to requests from its member/customers. The program is specifically designed based upon the technology available to Mohave and its firsthand experience with its member/customers. The extent to which any element of its proposed program is appropriate for any other utility is an issue that should and undoubtedly will be addressed by the Commission if and when another utility proposes a similar program. Each utility's proposal must be evaluated on its own merits and the needs of its customers. However, until a prepaid program is implemented, it is the desires and needs of Mohave's member/customers that are being frustrated..

Your email seems to focus on the circumstances surrounding disconnection under the proposed prepaid program. Mohave has designed its program to ensure that disconnects can easily be avoided and, in the event they do occur, easily addressed. For instance, disconnection will only occur Monday through Friday (excluding holidays) and during normal business hours. No additional charge is incurred for reconnection. Payment can be made by phone, internet or at Mohave's business office. No minimum prepaid balance is required (after the initial set up). The preset dollar limit when prepaid customers receive telephonic, text and/or email notice that the limit has been reached has been adjusted by season. A person must provide two methods of contact in order to be eligible for the program. A person can leave the program at any time and can receive traditional electrical service upon meeting the existing conditions of that service.

Mohave's proposed optional prepaid service program must be compared and contrasted with the current Commission approved service establishment, billing and disconnection process. See, AAC R14-2-203B (Deposits), -210 (Billing and Collection) and -211 (Termination of Service). In summary, to initiate service a prospective customer must satisfy 203B (which generally entails making a deposit of 2 times the average bill). Once service is established, the customer must pay the entire month's bill "no later than 15 days from the date of the bill" or be subject to termination upon 10 days written notice. A customer that is delinquent twice in a 12 month period must post a deposit, if not already posted. If disconnection occurs under traditional service, the customer is responsible for the delinquent bill, a reconnect fee, any authorized late fee and if applicable, the approved NSF charge and, when applicable, posting the customer deposit. These requirements are in place to offset the risk of customers not paying for services received.

Mohave does offer a deferred payment plan, but a payment (50% of the total delinquent amount) must be paid up front, with the remainder paid over a period not to exceed 6 months (in addition to current charges). An approved finance charge can also be added to those using a deferred payment plan. Failure to pay the deferred payment on time is a separate reason for terminating service upon 10 days written notice.

The Commission approved disconnect process for traditional service currently results in a high volume of disconnects every billing cycle (winter and summer) and subjects the customer to the associated time, effort and cost to reconnect. The current system also fails to preclude a large number of customers from leaving the system with unpaid and unsecured balances (with its associated cost to the rest of Mohave's member/customers). Mohave is confident that the availability of its proposed prepaid service will result in the number of disconnects in its service area dropping and where disconnection does occur, a quicker and easier re-establishment of electric service for the customer.

While prepaid service is new to Arizona, electric cooperatives throughout the United States have successfully implemented prepaid programs to address issues similar to those being faced by Mohave and its customers to the satisfaction to both the Cooperative and its customers. There seems to be a misconception that the program is being implemented solely for the benefit of the utility, when, in reality Mohave's customer elected Board of Directors is pursuing its proposed prepaid program at the request of and for the benefit of its member/customers.

As to a meeting locale, Mohave believes the meeting with AARP should be held in Bullhead City where Mohave's offices are located, in the heart of Mohave's service territory and where the most information can be readily exchanged.

Again, Mohave looks forward to meeting with you as soon as possible (and certainly before the end of May) to discuss AARP's comments and suggestions to improve Mohave's prepaid service program.

Regards,

Bill Sullivan
Curtis, Goodwin, Sullivan,
Udall & Schwab, PLC
501 East Thomas Road
Phoenix, Arizona 85012-3205
Phone: (602) 393-1700
Facsimile: (602) 393-1703
E-mail: wsullivan@cgsuslaw.com
Website: www.cgsuslaw.com

ATTACHMENT 3

MOHAVE ELECTRIC COOPERATIVE, INC.
1999 Arena Drive
Bullhead City, Arizona 86442
Filed By: J. Tyler Carlson
Title: CEO/General Manager

Effective Date: ____________________

STANDARD OFFER TARIFF

RATES AND CHARGES FOR OTHER SERVICES

Rate

OTHER SERVICE CHARGES

Establishment of Service-Regular Hours (Incl. Re-Establishment & Reconnection)		$40.00
After Hours Service		$60.00
Meter Re-Read Charge	(No Charge for Read Error)	$25.00
Meter Test Charges:		
	(a) Shop Test	$40.00
	(b) Independent Lab Test	$40.00 Plus Lab Cost
Insufficient Funds Payment		$25.00
Finance Charge-Deferred Payment Plan (Monthly)		1.50%
Late Fee Penalty (Monthly)		1.50%
Credit Card Service Charge	(Percentage of Total Payment)	Applicable Service Charge
Interest Rate on Customer Deposits		One Year Treasury Constant Maturities Rate Established Annually Each January 1
Service Availability		$0.00

ELECTRIC RATES

RATES AND CHARGES FOR OTHER SERVICES

Tax Adjustment

To the charge computed in this rate schedule, including all adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Cooperative and/or the price or revenue from the service sold hereunder.

Other Charges

Other charges may be applicable subject to approval by the Arizona Corporation Commission.

ATTACHMENT 4

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES–Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS.	DOCKET NO. E-01575A-08-0328

PRE-FILED REBUTTAL TESTIMONY OF DAVID HEDRICK

ON BEHALF OF

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

March 9, 2009

revenue and expense adjustments in the Cooperative's rebuttal plus a margin component equal to the company's original request.

Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE RECOMMENDATIONS MADE BY STAFF WITNESS JULIE MCNEELEY-KIRWAN WITH WHICH SSVEC DOES NOT AGREE.

A. SSVEC'S position are:

1. SSVEC opposes the levels of the recommended fuel bank thresholds. SSVEC will recommend alternate thresholds.
2. SSVEC opposes the recommendation to require SSVEC to obtain approval from the Commission when it is necessary to increase the fuel adjustor. SSVEC does not believe this recommendation is workable. SSVEC will propose an alternate approach to address the concerns raised by Staff.

Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE RECOMMENDATIONS MADE BY STAFF WITNESS WILLIAM MUSGROVE WITH WHICH SSVEC DOES NOT AGREE.

A. SSVEC's positions are:

1. The recommended changes to the customer charge component of the rate are not appropriate and are not supported by the evidence. The cost data included in the cost of service supports the higher level of customer charges and the higher customer charges send the proper pricing signal. In addition, higher customer charges have been approved by the